



WYOMING LEGISLATIVE SERVICE OFFICE

Memorandum

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TO Select Committee on Blockchain, Financial Technology and Digital Innovation Technology

FROM Clarissa Nord, Legislative Editor

SUBJECT Recent Bank Failures and the Impact on the Cryptocurrency Sector

This memorandum considers the recent failures of several banks within the United States banking system, including Silvergate Bank, Silicon Valley Bank (SVB), Signature Bank, and First Republic Bank. This memorandum also reviews the cryptocurrency sector's reaction to the bank failures and potential impacts of the closures. The information presented below reflects the known factors of the failures as of May 2023.

OVERVIEW OF BANK FAILURES

Generally, a bank closure transpires when it is unable to meet its obligations to depositors. The Federal Deposit Insurance Corporation (FDIC) serves in several capacities during a bank failure:

- If a bank is insured through the FDIC, the FDIC pays insurance to the bank's depositors up to the insurance limit; and
- The FDIC acts as the "receiver" of the failed bank, assumes the failed bank's assets, and settles its debts, including claims for deposits exceeding the insured limit.

In March and May 2023, the U.S. observed four bank failures that occurred under various circumstances. Silvergate Bank voluntarily initiated the liquidation process, where state regulators appointed the FDIC as the receiver of SVB, Signature Bank, and First Republic Bank.¹

Silvergate Bank

On March 8, 2023, the California Department of Financial Protection and Innovation announced that Silvergate Bank, a state-chartered bank under the State's supervision, voluntarily began the liquidation process.² Silvergate Bank noted the liquidation plans involve full repayment of all deposits.³

¹ Federal Deposit Insurance Corporation, *When a Bank Fails – Facts for Depositors, Creditors, and Borrowers* (July 28, 2014), <https://www.fdic.gov/consumers/banking/facts/>.

² California Department of Financial Protection & Innovation, *DFPI Statement: Silvergate Bank to Begin Voluntary Liquidation* (March 8, 2023), <https://dfpi.ca.gov/2023/03/08/dfpi-statement-silvergate-bank-to-begin-voluntary-liquidation/>.

³ Silvergate Bank, *Silvergate Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank* (March 8, 2023), <https://ir.silvergate.com/news/news-details/2023/Silvergate-Capital->

Silvergate Bank specialized in crypto-related services, with \$11.3 billion in assets as of December 31, 2022. Silvergate Bank's clients previously included cryptocurrency firms such as Coinbase, Gemini, Paxos, Circle, Kraken, and FTX.⁴ In January 2023, Silvergate Bank's stock dropped significantly after the bank confirmed its depositors withdrew \$8.1 billion between September and December 2022.⁵ As a result, the rapid decrease in deposits required Silvergate Bank to sell a portion of its assets, specifically debt securities, to cover deposit withdrawals, resulting in a \$1 billion loss.⁶

Following the loss, Silvergate Bank announced on March 1, 2023, that recent events increased concerns pertaining to the bank's ability to operate. According to the FDIC Chairman, Silvergate Bank's failure was the result of a variety of factors, such as a lack of diversification, aggressive growth, maturity mismatches in a rising interest rate environment, and sensitivity to liquidity risk. Put differently, the collapse of Silvergate Bank was largely the result of unfavorable market conditions and poor risk management.⁷

Silicon Valley Bank

On March 10, 2023, the California Department of Financial Protection and Innovation closed SVB and subsequently appointed the FDIC as receiver. Prior to the Bank's closure, SVB was the 16th largest bank in the U.S., with 17 branches in California and Massachusetts, along with \$209 billion in assets and \$175 billion in deposits, as of December 31, 2022.⁸ SVB's closure was the third-largest bank by assets to fail in U.S. history.⁹

SVB Failure

A variety of conditions contributed to SVB's failure, including the notion the bank was unique in that it specialized in lending money to technology start-up companies. Circle, the issuer of the stablecoin USD Coin (USDC), also deposited \$3.3 billion in reserves with SVB. Concerns regarding the deposits resulted in USDC losing its one-to-one peg to the U.S. Dollar following SVB's failure.¹⁰

Corporation-Announces-Intent-to-Wind-Down-Operations-and-Voluntarily-Liquidate-Silvergate-Bank/default.aspx.

⁴ Nikhilesh De, *Silvergate Stock Drops Over 50% as Crypto Clients Flee Beleaguered Bank*, CoinDesk (March 2, 2023), <https://www.coindesk.com/business/2023/03/02/silvergate-stock-drops-over-50-as-crypto-clients-flee-beleaguered-bank/>.

⁵ Derek Saul, *Latest Crypto Collapse: Bitcoin and Ethereum's Losses Top \$24 Billion as Silvergate Unravels*, Forbes Digital Assets (March 3, 2023), <https://www.forbes.com/sites/dereksaul/2023/03/03/latest-crypto-collapse-bitcoin-and-ethereums-losses-top-24-billion-as-silvergate-unravels/?sh=27fcf842236d>.

⁶ Federal Deposit Insurance Corporation, *Statement of Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation on Recent Bank Failures and the Federal Regulatory Response* (March 28, 2023), <https://www.fdic.gov/news/speeches/2023/spmar2723.pdf>.

⁷ *Id.*

⁸ Andrew P. Scott & Marc Labonte, *Silicon Valley Bank and Signature Bank Failures*, IN12125, Congressional Research Service (March 21, 2023), <https://crsreports.congress.gov/product/pdf/IN/IN12125>.

⁹ David H. Carpenter & Jay B. Sykes, *Silicon Valley Bank's Failure and Potential Director/Officer Liability*, LSB10946, Congressional Research Service (April 7, 2023), <https://crsreports.congress.gov/product/pdf/LSB/LSB10946>.

¹⁰ Nikhilesh De, *USDC Stablecoin Regains Dollar Peg After Silicon Valley Bank-Induced Chaos*, CoinDesk (March 13, 2023), <https://www.coindesk.com/business/2023/03/13/usdc-stablecoin-regains-dollar-peg-after-silicon-valley-bank-induced-chaos/>.

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SVB also had a large portion of uninsured deposits, amounting to 93.8 percent of its total deposits being uninsured.¹¹ According to the Congressional Research Service, uninsured deposits can lead to widespread bank runs, as uninsured depositors try to avoid losses by withdrawing funds before the bank does not have access to capital.¹²

SVB further observed substantial growth from 2019 to 2022 (\$60 billion in 2019 to \$209 billion in 2022), coinciding with growth in the technology and innovation industries. To generate a return for the deposits, the Bank invested its depositor's cash in medium- and long-term Treasury bonds, with a comparatively small amount of the deposits held in cash. These securities are generally low risk, until recently when the Federal Reserve raised interest rates in response to inflation.¹³ With increased interest rates, the market value of SVB's bonds decreased.¹⁴

Around the same time, some of SVB's depositors in the technology sector began withdrawing funds from their accounts as they were experiencing financial challenges. To accommodate the withdrawals, SVB sold some of its investments at a \$1.8 billion loss. Due to the perceived liquidity crisis of SVB, depositors quickly withdrew their funds, resulting in a bank run.¹⁵

FDIC Actions

When the FDIC began its receivership of SVB, the FDIC assured that all depositors would receive their funds, even if deposits exceeded the \$250,000 FDIC deposit guarantee.¹⁶ The FDIC maintained, after thorough consideration and analysis, it could use emergency systemic risk authorities under the Federal Deposit Insurance Act to fully protect all SVB depositors. Although, the FDIC established the receivership actions would not cover SVB investors.¹⁷

Following the California Department of Financial Protection and Innovation's closure of SVB, the FDIC created the Silicon Valley Bridge Bank. A bridge bank is a temporary national bank the FDIC charters to maintain banking services for the customers affected by a bank failure. The FDIC transferred all deposits, insured and uninsured, as well as all of SVB's assets to the bridge bank. The FDIC established the bridge bank to stabilize the institution and market the franchise to return the institution to private control.¹⁸

¹¹ S&P Global Market Intelligence, *SVB, Signature Racked Up Some High Rates of Uninsured Deposits* (March 14, 2023), <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/svb-signature-racked-up-some-high-rates-of-uninsured-deposits-74747639>.

¹² Andrew P. Scott & Marc Labonte, *Silicon Valley Bank and Signature Bank Failures*, IN12125, Congressional Research Service (March 21, 2023), <https://crsreports.congress.gov/product/pdf/IN/IN12125>.

¹³ The inverse relationship between interest rates and bond prices occurs if interest rates rise, investors will no longer prefer the lower fixed interest rate paid by a bond, resulting in a decline in its price, *See*: <https://www.investopedia.com/ask/answers/why-interest-rates-have-inverse-relationship-bond-prices/>.

¹⁴ Erin Gobler, *What Happened to Silicon Valley Bank?*, Investopedia (March 27, 2023), <https://www.investopedia.com/what-happened-to-silicon-valley-bank-7368676>.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ Federal Deposit Insurance Corporation, *Statement of Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation on Recent Bank Failures and the Federal Regulatory Response* (March 28, 2023), <https://www.fdic.gov/news/speeches/2023/spmar2723.pdf>.

¹⁸ Federal Deposit Insurance Corporation, *First-Citizens Bank & Trust Company, Raleigh, NC, to Assume All Deposits and Loans of Silicon Valley Bridge Bank, N.A., from the FDIC* (March 26, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23023.html>.

On March 26, 2023, the FDIC entered into a purchase and assumption agreement for all deposits and loans of Silicon Valley Bridge Bank by First-Citizens Bank & Trust Company. As of March 27, 2023, the 17 former branches of Silicon Valley Bridge Bank opened as First-Citizens Bank and depositors of the Silicon Valley Bridge Bank automatically became depositors of First-Citizens Bank.¹⁹

Signature Bank

On March 12, 2023, the New York State Department of Financial Services closed Signature Bank and appointed the FDIC as receiver after depositors withdrew large sums of money following concerns over the failure of SVB. Signature Bank managed 40 branches in New York, California, Connecticut, North Carolina, and Nevada. Prior to its failure, Signature Bank was the 29th largest bank in the U.S., with assets totaling \$110 billion and deposits of \$88.6 billion as of December 31, 2022. Signature Bank's closure was the fourth-largest bank by assets to fail in U.S. history.²⁰

The FDIC maintained that, unlike SVB, which had its client base established in start-up companies, and Silvergate Bank, which provided services to digital asset firms, Signature Bank operated as a commercial bank and managed differing loan portfolios. Despite that, Signature Bank shared some similar risk characteristics of Silvergate Bank and SVB in that its assets increased rapidly from \$43 billion in 2017 to \$110 billion in 2022.²¹ Signature Bank also had a significant number of uninsured depositors, with 90 percent of deposits uninsured.²²

Additionally, Signature Bank maintained ties to the cryptocurrency sector, and by September 2022, roughly a quarter of its deposits stemmed from cryptocurrency clients. However, Signature Bank experienced large withdrawals after the FTX collapse. FTX was one of the bank's clients, but the cryptocurrency exchange's deposits amounted to less than 0.1 percent of the bank's deposits. Even so, the connection caused the valuation of Signature Bank's shares to decrease by 20 percent in November 2022.²³

Signature Bank then announced in December 2022, that it would decrease cryptocurrency deposits by \$8 billion. Signature Bank's difficulties were further compounded by increasing interest rates.²⁴ Prior to its failure, Signature Bank tried to reassure its depositors by reducing its exposure to the cryptocurrency industry. However, Signature Bank's failure resulted from regulator concern regarding depositors withdrawing substantial funds after the SVB failure.²⁵

¹⁹ *Id.*

²⁰ *Id.*

²¹ Federal Deposit Insurance Corporation, *Statement of Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation on Recent Bank Failures and the Federal Regulatory Response* (March 28, 2023), <https://www.fdic.gov/news/speeches/2023/spmar2723.pdf>.

²² Lora Shinn, *What Happened to Signature Bank?*, Investopedia (March 24, 2023), <https://www.investopedia.com/what-happened-to-signature-bank-7370710>.

²³ Helene Braun, *Signature Bank to Reduce Crypto-Tied Deposits by as Much as \$10 Billion*, CoinDesk (December 6, 2022), <https://www.coindesk.com/business/2022/12/06/signature-bank-to-reduce-crypto-tied-deposits-by-as-much-as-10-billion/>.

²⁴ Danial Clark, *Another Crypto Lender Fails as Signature Bank Shuts Down*, Investopedia (March 13, 2023), <https://www.investopedia.com/another-crypto-lender-fails-as-signature-bank-shuts-down-7254539>.

²⁵ Lora Shinn, *What Happened to Signature Bank?*, Investopedia (March 24, 2023), <https://www.investopedia.com/what-happened-to-signature-bank-7370710>.

FDIC Actions

The FDIC subsequently took similar actions with both the Signature Bank and SVB receiverships. The FDIC established the Signature Bridge Bank and transferred the bank's deposits and assets to it²⁶, utilized its emergency systemic risk authorities, and guaranteed that all depositors would receive their funds.²⁷ The FDIC also established Signature Bank investors would not be protected.²⁸

On March 19, 2023, the FDIC completed the sale of the Signature Bridge Bank to the acquiring institution, New York Community Bancorp's Flagstar Bank. The 40 former Signature Bank branches operated under Flagstar Bank on Monday, March 20, 2023. The FDIC provided depositors, other than those who engaged in the digital-asset-banking business, became depositors of Flagstar Bank.²⁹

The FDIC stated Flagstar Bank's bid did not include \$4 billion of deposits related to Signature Bank's digital-asset-banking services. The FDIC plans to provide these deposits directly to depositors whose accounts are associated with digital assets.³⁰

First Republic Bank

On May 1, 2023, the California Department of Financial Protection and Innovation closed First Republic Bank and appointed the FDIC as receiver. First Republic Bank's failure was the second-largest bank by assets to fail in U.S. history.³¹

Before its failure, First Republic Bank had approximately \$229.1 billion in total assets and \$103.9 billion in deposits as of April 13, 2023.³² It is reported that similar to SVB and Signature Bank, a majority of First Republic Bank's deposits were uninsured, or above the FDIC's \$250,000 limit. Following the collapse of SVB and Signature Bank, First Republic Bank's depositors withdrew approximately \$100 billion in deposits. On March 16, 2023, to try to preserve the overall stability of the U.S. banking system, First Republic Bank announced they received \$30 billion from a group of large banks*.³³

²⁶ Andrew P. Scott & Marc Labonte, *Silicon Valley Bank and Signature Bank Failures*, IN12125, Congressional Research Service (March 21, 2023), <https://crsreports.congress.gov/product/pdf/IN/IN12125>.

²⁷ Lora Shinn, *What Happened to Signature Bank?*, Investopedia (March 24, 2023), <https://www.investopedia.com/what-happened-to-signature-bank-7370710>.

²⁸ Federal Deposit Insurance Corporation, *Statement of Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation on Recent Bank Failures and the Federal Regulatory Response* (March 28, 2023), <https://www.fdic.gov/news/speeches/2023/spmar2723.pdf>.

²⁹ Federal Deposit Insurance Corporation, *Subsidiary of New York Community Bancorp, Inc., to Assume Deposits of Signature Bridge Bank, N.A., From the FDIC* (March 19, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23021.html>.

³⁰ *Id.*

³¹ Ken Sweet, *First Republic Bank Seized, Sold in Fire Sale to JPMorgan*, Associated Press (May 1, 2023), <https://apnews.com/article/first-republic-bank-silicon-valley-fdic-5ab48702b7136d42f73ac13e0a20955d>.

³² Federal Deposit Insurance Corporation, *JPMorgan Chase Bank, National Association, Columbus, Ohio, Assumes All the Deposits of First Republic Bank, San Francisco, California* (May 1, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23034.html>.

* The group of banks included Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of New York Mellon, PNC Bank, State Street, Truist, and U.S. Bank.

³³ First Republic Bank, *Reinforcing Confidence in First Republic Bank* (March 16, 2023), <https://news.firstrepublic.com/news-releases/news-release-details/reinforcing-confidence-first-republic-bank>.

The FDIC entered into a purchase and assumption agreement with JPMorgan Chase Bank to assume all of First Republic Bank's deposits and assets. First Republic Bank's 84 Offices located in eight states* reopened as branches of JP Morgan Chase Bank on May 1, 2023.³⁴

Subsequent Actions from the Federal Reserve and FDIC

On April 28, 2023, the Federal Reserve published a report detailing the Federal Reserve's supervision and regulation of SVB. According to the Federal Reserve, SVB failed due to mismanagement, as senior leadership did not mitigate or properly anticipate interest rate and liquidity risk. The report provided that SVB was somewhat of a unique situation in that SVB had a highly concentrated business model, interest rate risk, and increased reliance on uninsured deposits. However, the Federal Reserve also recognized the failure demonstrates weaknesses in regulation and supervision.³⁵

The FDIC correspondingly released a report on April 28, 2023, evaluating the agency's supervision of Signature Bank and identifying the causes of the bank's failure. The FDIC provided the failure stemmed from poor management, specifically with respect to the notion that Signature Bank's board of directors and management pursued rapid growth without maintaining adequate risk management practices and controls appropriate for the institution.³⁶

CRYPTOCURRENCY MARKET IMPACTS

With respect to the association between the bank closures and the cryptocurrency sector, the failures stemmed from a variety of circumstances. While Silvergate Bank was primarily focused on digital assets, SVB was crypto-friendly, but mainly supported technology start-up companies. Signature Bank was also involved with the cryptocurrency sector, but since 2022, the institution attempted to distance itself from the industry.³⁷ The FDIC and the New York Department of Financial Services stated Signature Bank had a broad depositor base and its exposure to the cryptocurrency industry was not the sole reason as to why the bank failed.³⁸ That being said,

* First Republic Bank previously provided services in California, Connecticut, Florida, Massachusetts, New York, Oregon, Washington, and Wyoming.

³⁴ Federal Deposit Insurance Corporation, *JPMorgan Chase Bank, National Association, Columbus, Ohio, Assumes All the Deposits of First Republic Bank, San Francisco, California* (May 1, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23034.html>.

³⁵ Board of Directors of the Federal Reserve System, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank* (April 28, 2023), <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>.

³⁶ Federal Deposit Insurance Corporation, *FDIC Releases Report Detailing Supervision of the Former Signature Bank, New York, New York* (April 28, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23033.html>.

³⁷ Jesse Hamilton, *Is This a Crypto Banking Bailout?*, CoinDesk (March 13, 2023), https://www.coindesk.com/policy/2023/03/13/is-this-a-crypto-banking-bailout/?utm_source=Sailthru&utm_medium=email&utm_campaign=State%20of%20Crypto%20-%202023/21/23&utm_term=State%20of%20Crypto.

³⁸ Nikhilesh De, *President Biden Calls for Stronger Bank Regulations in Wake of SVB, Signature Bank Collapses*, CoinDesk (March 13, 2023), <https://www.coindesk.com/es/policy/2023/03/13/president-biden-calls-for-stronger-bank-regulations-in-wake-of-svb-signature-bank-collapses/>.

perceptions regarding a bank's exposure to cryptocurrency may have compelled businesses or individuals not involved in the sector to make substantial withdrawals.³⁹

With respect to other impacts, Silvergate and Signature Banks were among the largest U.S. banking service providers for the cryptocurrency sector. Experts involved in the cryptocurrency sector speculate the closures may affect the cryptocurrency industry's ability to access traditional banking services.⁴⁰ However, recent reports indicate that cryptocurrency firms are establishing new connections with regional banks such as Customers Bancorp, Fifth Third Bancorp, or Cross River Bank.⁴¹ Altogether, other banks are taking advantage of the perceived gap in the market.

Another aspect of the collapse of Silvergate and Signature Banks was the loss of payment networks (Silvergate Exchange Network and Signet) through the banks that facilitated off-blockchain money transfers between investors and cryptocurrency exchanges.⁴² Reportedly, other blockchain firms or banks may consider establishing similar payment networks.⁴³

The Congressional Research Service also noted some observers are concerned the SVB failure may negatively affect technology start-up companies' funding and operations. A number of technology companies, such as Roku and Roblox, deposited \$487 million and \$150 million, respectively, at SVB. As previously mentioned, SVB's failure also de-pegged stablecoin USDC, as Circle held \$3.3 billion in deposits at the bank.⁴⁴

³⁹ Paul Tierno, *The Role of Cryptocurrency in the Failures of Silvergate, Silicon Valley, and Signature Banks*, IN12148, Congressional Research Service (April 25, 2023), <https://crsreports.congress.gov/product/pdf/IN/IN12148>.

⁴⁰ Chainalysis, *Here's What On-Chain Data Tells Us About Crypto's Reaction to the Demise of Silicon Valley Bank and Its Impact on USDC* (March 16, 2023), <https://blog.chainalysis.com/reports/crypto-market-usdc-silicon-valley-bank/>.

⁴¹ Alexander Osipovich et al., *Banks Step Up to Serve Crypto Firms After Signature, Silvergate Blowups*, The Wall Street Journal (March 27, 2023), <https://www.wsj.com/articles/banks-step-up-to-serve-crypto-firms-after-signature-silvergate-blowups-5e7b4074>.

⁴² Helene Braun, *Signature Bank, Stablecoins Might Benefit from Silvergate Exchange Network's Demise*, CoinDesk (March 7, 2023), <https://www.coindesk.com/business/2023/03/07/signature-bank-stablecoins-might-benefit-from-silvergate-exchange-networks-demise/>.

⁴³ *Id.*

⁴⁴ Eva Su, *The Silicon Valley Bank's Failure's Capital Markets Implications*, IN12141, Congressional Research Service (April 7, 2023), <https://crsreports.congress.gov/product/pdf/IN/IN12141>.